

## Message Text

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TO AMEMBASSY TEL AVIV PRIORITY

C O N F I D E N T I A L STATE 007057

EXDIS

E.O. 11652: GDS

TAGS: EAID, EFIN, MASS, IS

SUBJECT: ISRAELI REQUEST FOR FY 76 ASSISTANCE

REF: TEL AVIV 143

1. ISRAELI EMBASSY ECON MINISTER SHER CALLED ON PM DEPUTY DIRECTOR STERN JANUARY 8 TO PRESENT "BLUE PAPER" OF ISRAEL'S REQUEST FOR U.S. ASSISTANCE IN FY-76. SHER MADE FOLLOWING POINTS IN DISCUSSING BLUE PAPER:

A. WHILE NO ASSUMPTION OF 1976 U.S. ASSISTANCE LEVEL INDICATED IN TABLE I, P. 2, GOI EXPECTS AMOUNTS REQUESTED P. 12. SHER EXPLAINED ISRAEL'S NEED FOR U.S. FY-76 ASSISTANCE AS DOLS 2.1 BILLION FROM FIGURES ON TABLE I, P. 2 (UNCOVERED 1975 DEFICIT OF DOLS 784 MILLION PLUS ONE-HALF 1976 UNCOVERED DEFICIT OF DOLS 2,590 MILLION).

B. SUPPORTING ASSISTANCE SHOULD BE NOT REPEAT NOT LESS THAN DOLS 325 MILLION. AS JUSTIFICATION OF ISRAEL'S NEED  
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SHER NOTED DOLS 600 MILLION INDIRECT DEFENSE IMPORTS IN

1975 (BLUE PAPER P. 3) NOT REPEAT NOT COVERED BY U.S. MILITARY ASSISTANCE AND DOLS 2.7 BILLION INCREASE IN BASIC IMPORT COSTS DURING PERIOD 1972-75 (P. 5).

C. UNCOVERED 1974 DEFICIT OF DOLS 1,229 MILLION (TABLE I, P. 2) ACTUALLY HAS BEEN COVERED BY DRAWING ON FOREIGN EXCHANGE RESERVES AND BORROWING.

D. U.S. ASSISTANCE TO ISRAEL SHOULD BE IN FORM OF FMS CREDITS AT SAME TERMS AND CONDITIONS AS 1973 EMERGENCY SECURITY ASSISTANCE ACT BUT CARRIED IN THE REGULAR FOREIGN ASSISTANCE ACT.

E. ALTHOUGH GOI REQUESTS MULTIYEAR AUTHORIZATION FOR MILITARY ASSISTANCE TO ISRAEL AS SOON AS PRACTICAL (P. 11), SHER IN FACT DID NOT BELIEVE THIS TO BE PRACTICAL AT PRESENT. BUT REQUEST STILL STANDS AND A THREE-YEAR AUTHORIZATION IS DESIRED AS SOON AS IT IS DEEMED PRACTICAL.

F. IN REFERENCE TO VARIOUS PROPOSED PLANS TO HELP COUNTRIES WITH BALANCE OF PAYMENTS PROBLEMS DUE TO RISING COST OF OIL IMPORTS, SHER SUGGESTED THAT THE U.S. USE THIS TYPE OF MECHANISM TO MEET PART OF ISRAEL'S ASSISTANCE REQUIREMENTS (PP. 5-6). SHER SAW THIS AS NEW TREND IN U.S. FOREIGN ASSISTANCE TO HELP SEE COUNTRIES THROUGH DIFFICULTIES OF NEXT TWO OR THREE YEARS BY EXTENDING LOW-INTEREST MEDIUM- AND LONG-TERM LOANS. FOR ISRAEL, THIS WOULD MEAN LEAVING SUPPORTING ASSISTANCE GRANT AT PRESENT LEVEL WITH RELIANCE PRIMARILY ON LOANS FOR THE BALANCE. SHER POINTED OUT IMF PLAN DEALS ONLY WITH PROBLEM OF RISING OIL IMPORT COST BUT NOT OVERALL INFLATION. HE FELT ISRAEL WOULD NOT BE ENTIRELY WELCOME TO PARTICIPATE IN IMF PLAN DUE TO SOURCE OF MONEY FROM OIL PRODUCERS (PRIMARILY ARABS). THEREFORE, SHER SAID U.S. SHOULD LOOK ON ITS ASSISTANCE AS ESSENTIAL FOR ISRAEL'S OVERALL SURVIVAL BUT ADDED HE WAS NOT SURE USG VIEWED THE MATTER IN THIS LIGHT. SHER WAS ADAMANT, HOWEVER, THAT U.S. ASSISTANCE SHOULD NOT BE CONTINGENT UPON OUTCOME OF MIDDLE EAST NEGOTIATIONS.

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G. BLUE PAPER DOES NOT REFLECT ANTICIPATION OF WAR (P. 2) BUT EVEN IF PEACE AGREEMENT WERE REACHED ISRAEL WOULD REQUIRE SAME LEVELS OF MILITARY AND SUPPORTING ASSISTANCE. SHER SAID ISRAEL'S NEEDS ARE BASED ON ENABLING ISRAEL TO FIGHT WAR OF CERTAIN NUMBER OF DAYS DURATION BUT EMPHASIZED THAT BLUE PAPER WAS BASED ON CONTINUATION OF NEGOTIATING PROCESS. SHER SAID ASSISTANCE WAS NECESSARY AS U.S. COMMITMENT

TO ISRAEL'S SURVIVAL, AS PREVIOUSLY STATED BY U.S. PRESIDENTS, UNTIL ISRAEL CAN STAND BY ITSELF, AND WAS JUSTIFIED BY FACT ISRAEL WAS DOING ALL IT COULD ON ITS OWN THROUGH AUSTERITY MEASURES AND INCREASED TAXES (PP. 7-9). EFFECT-

IVENESS OF SELF-HELP MEASURES WAS REFLECTED IN FORECAST OF INCREASED EXPORTS TO ACHIEVE STABILITY IN CURRENT ACCOUNT DEFICIT (TABLE I, P. 1).

I. SHER SANO IMMEDIATE PROBLEM ON PAYMENTS FOR ISRAELT MILITARY HARDWARE DELIVERIES. HE ESTIMATED THERE IS AN UNCOVERED GAP OF DOLS 1 BILLION BETWEEN ORDERS PLACED AND CREDIT COMMITTED. HOWEVER, CASH FLOW UP TO NOW HAS BEEN ADEQUATE TO MEET PAYMENTS AS THEY HAVE FALLEN DUE .

2. CONTRARY TO IMPRESSION CREATED BY ISRAELI PRESS ARTICLES REPORTED REFTEL, BLUE PAPER WAS DELIVERED TO OFFICERS OF VARIOUS USG AGENCIES ON JANUARY 8. SHER ASKED DEPT CLARIFY THIS POINT WITH EMBASSY DUE TO COMPLAINT HE RECEIVED FROM FINANCE MINISTER ARISING FROM ISRAELI PRESS REPORTS. KISSINGER

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